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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

REPORT AND RECOMMENDATION

OF THE

PRESIDENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

TO THE

AGRICULTURAL DEVELOPMENT CORPORATION

AND A PROPOSED CREDIT

TO THE

REPUBLIC OF KOREA

December 29, 1971

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

REPORT AND RECOMMENDATION OF THE PRESIDENT
TO THE EXECUTIVE DIRECTORS ON A PROPOSED
LOAN TO THE AGRICULTURAL DEVELOPMENT CORPORATION
AND A PROPOSED CREDIT TO THE REPUBLIC OF KOREA

1. I submit the following report and recommendation on: a proposed loan to the Agricultural Development Corporation (ADC), with the guarantee of the Republic of Korea, for the equivalent of \$33 million with interest at 7 $\frac{1}{2}$ % per annum and repayable in 30 years including a six-year period of grace; and a proposed development credit on standard IDA terms for the equivalent of \$15 million to the Republic of Korea, to be relented to the ADC on the same terms and conditions as the Bank loan. The loan and credit would help finance irrigation for about 33,000 hectares in the southwest part of Korea to increase the production of rice, vegetables, fruit and other crops.

PART I - BANK GROUP OPERATIONS

2. Korea has received six IDA credits amounting to \$65.0 million, of which one of \$3.5 million for highway studies and engineering has been incorporated in a loan of \$54.5 million for highway construction, and six Bank loans amounting to \$194.5 million, a total of \$256.0 million. The largest share of Bank Group financing, \$134.2 million, has gone to the transport sector - \$79.7 million for railways and \$54.5 million for highways. The Korea Development Finance Corporation (KDFC) has received \$55 million in Bank loans for relending to private industrial enterprises. The balance of the Bank Group's past lending is accounted for by \$52 million for agriculture (irrigation and livestock) and \$14.8 million for education.

3. Of the total Bank Group lending of \$256.0 million, \$178.9 million remained undisbursed as of November 30, 1971. This relatively large amount is explained, in part, by the fact that several large loans were made within the past year and a half, and by the small disbursements made so far under a 1969 loan of \$45 million for the Pyongtaek-Kumgang irrigation project. The original borrower under that project, the Union of Land Improvement Associations, was dissolved soon after the loan was made and replaced by the ADC, the borrower of the loan now proposed. The change of borrower, combined with the fact it took longer than expected to employ consultants to supervise the execution of the project, has put the Pyongtaek-Kumgang project about one year behind schedule. However, a recent supervision mission reported that the project is now well under way and may be concluded within the original construction schedule. The education project was also slow in getting started due to delays in organizing the project team, but is now progressing satisfactorily.

4. Before the end of this fiscal year I expect to recommend an IDA credit for an agricultural credit project, which, together with the lending operation described here, would increase our contribution to a sector which has been neglected in the past and which requires heavy additional investments. Projects under active consideration for next year include agricultural warehouses, a fourth loan to the Korea Development Finance Corporation, education, tourism, port development and railroads.

5. IFC has made three investments in Korea and its holdings amount to \$7.4 million in loans and shares. IFC is presently considering an investment in the shares of the Korea Investment and Finance Corporation, a new financial institution which will assist the development of the capital and money markets in Korea. Further investment possibilities are being investigated by IFC. A statement of Bank loans, IDA credits and IFC investments is given in Annex I.

PART II - THE ECONOMY

6. A report entitled "The Economic Situation and Prospects of the Republic of Korea" (EAP-25a, dated September 13, 1971) was circulated to the Executive Directors and members of the Consultative Group on September 17, 1971. The fifth meeting of the Consultative Group was held in Tokyo in October 1971. Basic data on the country are given in Annex II.

7. Rapid economic growth, with strong emphasis on industrialization and exports, has been a basic objective of the Government's policy. This objective has been effectively fostered by Government policies of active encouragement of private business, and by a well-educated, disciplined and low-wage labor force. Agricultural production has advanced at the fairly satisfactory rate of 3% to 4% a year but farm income has not kept pace because of the lag of farm prices. GNP increased in real terms by 11% a year during 1965-70, while GNP per capita rose by almost 9% a year to reach US\$222 in 1970. The population growth rate, restrained by an active official family planning program, declined from an average 2.8% a year in the first half of the decade to 2.2% in 1970. The economically active population increased at 2% a year during 1965-69 while employment increased at 2.6% a year. Thus, Korea has been able to expand its employment opportunities sufficiently to absorb the increase in the labor force and, at the same time, reduce the level of unemployment from about 7.4% in 1965 to 4.8% in 1969.

8. While exports have been rising rapidly, both the expansion of investment demand at a rate greatly in excess of the rate of increase in domestic savings, and the low domestic content of industrial production, have caused an equally rapid increase in imports. Consequently, the foreign deficit on goods and services increased steadily from \$194 million in 1965 to \$803 million in 1970. Large external capital inflows were more than sufficient to cover the payments deficits, however, and official foreign exchange reserves increased from \$235 million in 1966 to \$584 million at the end of 1970.

9. Korea's outstanding economic performance in terms of growth has been achieved at the cost of moderate, but continuous inflation, a persistent balance of payments deficit and heavy external indebtedness. Realizing the importance of keeping the external debt burden within manageable limits and of containing inflation, the Government, in late 1969, adopted a set of monetary and fiscal stabilization measures in agreement with the IMF that were designed to limit the growth of private consumption, curb credit expansion and cut down the growth of imports and foreign borrowing.

10. The stabilization program had significant effects on the economy in 1970, most important being a fall in investment and foreign borrowing and a slowdown in import growth. Despite the Government's efforts at stabilization, however, developments in the first ten months of 1971 indicate a recurrence of the financial management problem. The rate of GNP increase accelerated, with a rapid increase in manufacturing. Import demand rose sharply. While the pace of export expansion slowed down somewhat in mid-year, partly because of a stagnant import demand in Japan and partly because of international economic developments, it still seems likely that the export total will not be far below the target for the year. Thus, while the United States import surcharge undoubtedly had some disruptive effects, these were not serious. The Government took major stabilization measures in June 1971, which included a devaluation of the Won by 11.5% and increases in advance deposit requirements. It was hoped that these measures, in combination with related credit restraint, would slow the pace of economic activities and imports in the latter part of 1971. While their full effects still remain to be seen, the import figures in particular are not encouraging. The likely outcome for the whole year is a goods and services deficit in the balance of payments that will probably exceed a billion dollars and another large increase in real GNP - perhaps by as much as 11%, although this might be lower if the harvest is bad, as early signs indicate.

11. This is a different pattern of development from that proposed in the new development plan for the five-year period starting next year. Hence, adjustments now seem necessary to realign the economy with the planned pattern of expansion. The Government recognizes the need to continue, if not reinforce, the present stabilization measures of restraining domestic credit creation, limiting external borrowings on unfavorable terms and maintaining a balanced budget.

12. The manner in which the Government proposes to deal with these issues is spelled out in Korea's Third Five-Year Economic Development Plan, to be implemented during 1972-76. It proposes substantial expansion, structural changes in agriculture and industry, and a very large increase in exports, within a fairly stable financial framework and a manageable balance of payments. The Plan would maintain a still high, but somewhat slower, economic growth rate of 8.6% a year. Population growth would be reduced to about 1.5% a year and the per capita income target would be about \$340 (in 1970 dollar prices) by 1976. The Plan emphasizes a better distribution of development gains, to result mainly from an increase in the agricultural growth rate to 4.5% a year, with average annual growth

of industrial output targeted to drop from around 20 to about 13%. The growth rate of investment would slow down, while national savings would rise to about 21% of GNP, thus narrowing Korea's resource deficit to 5% of GNP. These investment and savings trends, combined with a planned three-fold increase in exports, are expected to reduce the net foreign capital inflow and keep gross external inflows of foreign loans and investments to about \$4 billion for the five years, or an average of \$800 million a year.

13. The projected growth rate seems likely to require a larger investment outlay than allowed for in Korean plans. Thus, Korea's gross requirements for external capital will continue to be high even if policies of restraint are pursued. The reasons for this are the high level of debt service that has already been reached, the wide gap that remains between savings and investment even after the impressive gains in savings to a level of 16% of GNP in 1970 (and the plan target of 21% by 1976), and the expected deterioration in the service account of Korea's balance of payments due to withdrawals of U.S. forces from Korea and Korean forces from Viet-Nam.

14. Nevertheless, Korean capabilities for economic growth generally, and for export expansion in particular, should not be underrated, considering the record of rapid development and effective economic management in recent years. Without being specific, the Government has stated its intention of adjusting economic policies so as to keep within the modest growth targets of the Plan and to maintain a manageable foreign exchange and external debt position. This intention was reiterated at the recent meeting of the Consultative Group for Korea. It seems reasonable to expect Korea to continue on its course of rapid economic development, and it can be considered creditworthy for further Bank loans. At the same time, considering Korea's low level of per capita income and heavy dependence on foreign capital, some of the assistance from the Bank Group should continue to be on IDA terms.

15. The number of high priority projects in the public sector having a substantial foreign exchange element is relatively limited. Many of the projects with a large foreign exchange component are in the private industrial sector, and are financed from private sources and export credit agencies. The Bank Group's financing is going increasingly into infrastructure, agriculture and education projects which are of high priority but often have a low foreign exchange component. In these circumstances, the Bank Group is justified in lending for local expenditure.

PART III - THE PROJECT

THE AGRICULTURAL SECTOR

16. Agriculture provides a livelihood for about half of the country's total population of 32 million, but contributes only about 26% to GNP. The country is rugged and mountainous, with forests covering over two-thirds of the land area. Because of the generally poor quality of the

wood and the inaccessibility of much of the forest land, forestry contributes only a small part to the value added of the agricultural sector. During and after the Korean war many of the hills were stripped to provide fuel, and the Government has undertaken programs of reforestation which have been quite successful. The fishery industry, though relatively small, earns the country an appreciable amount of foreign exchange, and significant efforts have been made to modernize the coastal and deep-sea fishing fleets. Farming is still basically subsistence oriented, with an average farm size of less than one hectare. But because Korean farmers are progressive and extremely hard-working, yields per hectare are quite high. Roughly half of the total cultivated area produces more than one crop each year, as a result of interplanting and double cropping. Livestock production has increased substantially during the past five years, and the Government is upgrading the quality of beef and dairy herds through cattle imports and fattening programs.

17. In the Third Five-Year Development Plan, to run from 1972 to 1976, the Government has put major emphasis on developing the agricultural sector. From the time, about ten years ago, that the economy began to shift from a predominantly agricultural base to one that is highly industry-oriented, the rural population has slipped considerably behind its urban counterpart in terms of wages, education, health, shelter and the general amenities of life. During the decade of the sixties the rate of growth of agriculture averaged about 4% per year, which is quite good when compared to other developing countries but is far below Korea's overall growth rate of about 11% per year during the same period. The share of agricultural income in national income declined from 39% in 1965 to 26% by 1970, whereas the decline in the proportion of the population engaged in agriculture was much slower. Real income of farmers increased during this period, but at a considerably slower rate than that of the urban population, a result of the slower growth of agricultural productivity compared to the non-agricultural sectors.

18. Total gross public and private investment during the Third Plan is estimated at 4,525 billion Won (\$12 billion), of which 536 billion Won (\$1.4 billion) has been allocated to agriculture, forestry and fishery. This is almost double the share during the Second Plan (1967-71). The major emphasis will be placed on the distribution of improved seeds, farm mechanization, and the consolidation of fragmented holdings and providing them with new and improved irrigation, drainage and roads. Most of these planned activities are in pursuit of one of the Government's major agricultural goals: to be self-sufficient in rice by 1976.

19. The Government intends to increase rice production from 3.9 million tons in 1970 to 4.6 million tons in 1976, thereby gradually reducing imports of rice which may be close to one million tons in 1971. The production of other cereals, such as barley and wheat, are also expected to increase, but total foodgrain imports will continue at about two million tons a year. To attain the planned production increases the Government has adopted an agricultural development strategy consisting of wider use of modern agricultural inputs, better water resource management,

price incentives for farmers and improved agricultural infrastructure such as better farm roads and increased availability of electricity. The use of power tillers and other agricultural machinery will be promoted by consolidating irregularly shaped and scattered holdings.

20. In order to attain self-sufficiency in rice, the Government has been following a policy of high rice prices, through which it expects to stimulate local production, curtail consumption, and also increase farm income. Under this policy, minimum guaranteed prices are established each year, with the Government purchasing about 10% of the rice produced in the country and then reselling it on the open market. With a steady increase in the guaranteed prices after 1967 and close control of imports, prices on the open market have also increased and are now around \$300 per ton, polished, which is about double the c.i.f. price of imported rice. As pointed out to the Government at the recent Consultative Group meeting, and also during the negotiations, relying on excessively high prices to increase production and farm income may keep marginal rice lands from better alternative uses and could impede the ability of the agricultural sector to meet the growing demand for non-cereal primary products. While being aware of these implications, the Government considers it essential to be self-sufficient in rice for financial, social and political reasons. Although the project under consideration would not put new land under rice and so would not divert land better suited to other crops, it would be desirable to examine the full implications of the rice self-sufficiency policy before proceeding with further capital-intensive irrigation projects. The Agriculture Projects Department has agreed to schedule a sector mission in early FY 1973, the findings of which would provide a basis for our future lending strategy for agriculture. The proposed loan and credit would finance a feasibility study for the next stage in the overall development plan of the Yong San Gang basin and this study, together with the sector survey, should enable the Government and ourselves to decide whether the further development of the river basin would be justified.

21. The amount of funds available to farmers on medium and long-term is not sufficient to permit an effective reorganization and diversification of Korean agriculture. The existing channel for agricultural credit is the National Agricultural Cooperative Federation (NACF) which relies mostly on Government funds for its resources. The proposed agricultural credit project now being processed will make more funds available to farmers and will strengthen the NACF to make it more responsive to the needs of the agricultural sector.

22. Although the Government's major concern in the agricultural sector is to increase the production of rice and other foodgrains, it is also trying to stimulate other activities such as sericulture, the live-stock industry, the provision of adequate storage facilities for agricultural commodities, research into and production of high-yielding seeds, farm mechanization and more intensive use of fertilizers and pesticides. Besides these specific areas the Government has an ambitious program to improve the rural environment during the five years of the Third Development Plan through more rural electrification, expansion of the telecommunications network, improvement of rural housing, modernization of the water supply systems and the provision of better medical attention.

DESCRIPTION OF THE PROJECT

23. The Yong San Gang is one of four river basins which the Government proposes to develop with large-scale irrigation works under its All Weather Farming Program. The proposed project, which was prepared with assistance from the FAO/IBRD Cooperative Program and a Japanese team of consultants (Sanyu Consultants International), will provide assured irrigation to 33,000 hectares in a drought-prone area in the southwest portion of the country. It would consist of the construction of dams, reservoirs, irrigation and drainage systems, on-farm development and service roads, the consolidation of fragmented holdings and the provision of supporting agricultural services.

24. With emphasis on the production of rice, fruits, vegetables and other specialty crops, the proposed project will contribute in an important way to the Government's agricultural development program and is expected to more than double the income of the 45,000 farm families involved. As existing farm holdings are presently fragmented and of irregular shape, they would be consolidated and arranged into tracts of more or less equal size to permit efficient use of the irrigation system and mechanized agricultural equipment. In the project area some 24,000 hectares are cultivated with rice-barley rotation and an additional 9,000 hectares, mainly uplands, are cultivated with vegetables and other crops. Because of the practice of double-cropping, the total area cultivated is equivalent to 50,500 hectares. Rice is the predominant crop, accounting for about half the cropped area and nearly 80% of the value of production. Following completion of the project, the area under rice will remain the same but output will rise as a result of an assured water supply and better drainage. With the increase in the cropping intensity, the total area cultivated becomes equivalent to 60,000 hectares. The area under barley will decline while the area under fruit, vegetables and other specialty crops, which are in growing demand as the real income of the population increases, will rise appreciably.

25. Following the practice in the Pyongtaek-Kumgang project, water rates charged to the farmers benefiting from new or improved irrigation and reclamation projects would cover the full costs of operation and maintenance (including the cost of agricultural extension services) as well as the repayment of 40% of the capital cost with interest at 3.5% over a period of about 40 years, roughly equivalent to two-thirds of the capital cost without interest. On this basis the recovery of the project costs would amount to about \$100 per hectare per year. Recovering only a part of the capital costs avoids imposing an undue burden on farmers and weakening their incentive to improve their agricultural practices. The Government has undertaken to study the feasibility of establishing a graduated schedule for payment of water charges based on the size of land holdings and total income from farming operations.

The Implementing Agency

26. The Agricultural Development Corporation (ADC), a semi-autonomous public entity within the Ministry of Agriculture, would have overall responsibility for the project. The ADC has broad responsibilities for the

development of land and water resources in rural areas throughout Korea and has acquired a large, competent staff of administrators and specialists. A special project unit was set up to implement the Pyongtaek-Kumgang irrigation project and a similar unit will be established for the Yong San Gang project under the supervision of an ADC director.

27. Responsibility for day-to-day activities would be delegated to a central project field office, and four branch offices at each of the major construction sites would supervise the work. Although the ADC staff has considerable experience in designing and implementing small-scale irrigation projects, it is not geared to undertake two large projects simultaneously. The ADC would, therefore, engage a consulting firm to prepare final designs and tender documents, evaluate bids, and supervise construction.

28. The ADC, an arm of the Ministry of Agriculture, recovers some costs from beneficiaries through Land Improvement Associations (associations of farmers having irrigated land) but most of its resources come in the form of budgetary allocations from the Government. Following completion of the project the ADC would operate and maintain the four dams and main irrigation and drainage systems, while the Land Improvement Associations would operate and maintain the systems at the farm level.

Cost, Procurement and Financing

29. The cost of the project, including contingencies of \$21.1 million, is estimated at \$85.2 million. The proposed Bank Group financing of \$48 million would finance 52% of the project cost and interest during construction of \$3.4 million. Government budgetary allocations to ADC would finance the balance.

29. Contracts for civil works, equipment, materials and supplies required for the project would be awarded on the basis of international competitive bidding. The tendering of contracts for civil works would be the responsibility of ADC. The tendering of contracts for equipment, materials and supplies would be the responsibility of the Office of Supply of the Republic of Korea (OSROK). Domestic suppliers of equipment would be given a preference of 15%, or the prevailing customs duty if lower, in the evaluation of bids. Disbursements would be made against the c.i.f. cost of imported equipment, materials and supplies and the ex-factory cost of locally supplied items; and against foreign exchange payments for consulting services. Disbursements for civil works would be made on a percentage basis representing the estimated foreign cost of the works.

30. Bank Group financing would cover the foreign costs of the project, computed on the assumption that all civil works would be carried out by local contractors and that equipment, materials and supplies would be imported. In the event that local bidders win the latter contracts, the proposed loan and credit would finance up to \$2 million of local expenditures.

Economic Evaluation

31. The proposed project would bring about a substantial increase in agricultural production, mostly through higher productivity. Farm activities would be diversified from the traditional rice-barley sequence into higher value crops such as garlic, potatoes, Chinese cabbage and fruit. The income of participants in the project would be considerably increased and the country's balance of payments would be benefited to the extent that less rice would be imported.

32. In evaluating project benefits, rice and barley prices were based on the Bank's world market price projections for 1980, while other crops, which are not traded internationally, were based on the 1965-70 average farm gate price. At full development in 1982, the net value of production in the project area would be the equivalent of \$20.3 million, compared to less than \$4 million without the project. The incremental benefits and project costs discounted over the 50-year life of the project would result in an economic rate of return of 13%.

PART IV - LEGAL INSTRUMENTS AND AUTHORITY

33. The following documents are being distributed separately to the Executive Directors: The draft Development Credit Agreement between the Republic of Korea and the Association; the draft Loan Agreement between the Bank and the Agricultural Development Corporation; the draft Guarantee Agreement between the Republic of Korea and the Bank; the report and recommendation of the committees provided for by Article V Section 1(d) of the Articles of Agreement of the Association and by Article III Section 4(iii) of the Articles of Agreement of the Bank; and the text of Resolutions approving the proposed development credit and the proposed loan.

34. The draft Development Credit and Loan Agreements contain provisions common to agreements for projects of this kind. The draft Guarantee Agreement conforms generally to the standard pattern of guarantee agreements.

PART V - RECOMMENDATION

35. I recommend that the Executive Directors approve the proposed loan and credit.

Robert S. McNamara
President
By J. Burke Knapp

Attachments

REPUBLIC OF KOREA

SUMMARY STATEMENT OF LOANS, CREDITS AND IFC INVESTMENTS
(as of November 30, 1971)

LOANS AND CREDITS:

Loan or Credit No.	Year	Borrower	Purpose	Amount (U.S. \$ million)		
				Bank	IDA	Undisbursed
25	1962	Republic of Korea	Railway		14.0	-
110	1967	Republic of Korea	Railway		10.7	-
529	1968	KDFC	Dev. Fin. Co.	5.0		0.1
600	1969	ADC	Irrigation	45.0		42.0
151	1969	Republic of Korea	Education		14.8	14.5
622	1969	KDFC	Dev. Fin. Co.	20.0		7.6
669	1970	Republic of Korea	Railway	40.0		26.2
183	1970	Republic of Korea	Railway		15.0	0.1
234	1971	Republic of Korea	Livestock		7.0	7.0
735 ^{1/}	1971	KDFC	Dev. Fin. Co.	30.0		30.0
769 ^{1/}	1971	Republic of Korea	Highway	54.5		51.4
Total (less cancellations)				194.5		
of which has been repaid				.6		
Total now outstanding				193.9		
Amount sold				0.8		
Total now held by Bank and IDA				193.1	61.5	
Total undisbursed				157.3	21.6	178.9

IFC INVESTMENTS

			U.S. \$ million	
			Loans	Shares
1968	KDFC		-	0.7
1969	Honam Silk Company		1.4	0.3
1970	Atlas Paper Company		4.5	0.5
Total			5.9	1.5

^{1/} Became effective December 7, 1971. The loan incorporates an IDA credit for \$3.5 million of which \$3.1 million was disbursed; the disbursed amount was repaid to IDA when the loan became effective.

BASIC DATA - REPUBLIC OF KOREA

<u>Area</u>	98,438 sq. km.		
<u>Population</u> (end of 1970)	32.06 million		
Growth rate (1970)	2.1% ^{a/}		
Density (per sq. km.)	326		
<u>Gross National Product</u>			
Total (1970 at current prices)	2,562 billion Won		
Annual average real rate of growth (1965-70)	11.3%		
Per Capita GNP (1970)	\$223 equivalent		
<u>Industrial Origin of Real GNP (1970)</u>	100%		
Agriculture, Forestry and Fisheries	26%		
Mining and Manufacturing	28%		
Economic Overhead and Construction	13%		
Other Services	33%		
<u>Gross Domestic Expenditure</u> (current prices; as percentage of GDP)	<u>1965</u>	<u>1969</u>	<u>1970</u>
<u>Consumption</u>	94	84	84
Private	84	73	73
Public	10	11	11
<u>Gross Capital Formation</u>	15	30	26
<u>Gross Domestic Saving</u>	8	19	16
Public	2	6	6
Private	6	13	10
<u>Resource Gap</u>	7	11	10
<u>Public Finance</u> (current prices, in billion Won)			
Current Revenue	91	370	521
Current Expenditure	81	248	310
Surplus	10	122	211
Capital Expenditure	41	231	221
Receipts from Counterpart Funds	33	17	28
<u>Money and Credit</u> (annual rate of change in percent)			
Money Supply	33	46	41
Time and Savings Deposits	112	77	27
Total Bank Credit Outstanding	42	60	32

^{a/} This figure has not been adjusted by the result of the 1970 census, which shows an average annual growth rate of 1.9% between 1966 and 1970.

	<u>1965</u>	<u>1969</u>	<u>1970</u>
<u>Price Indices</u> (percent increase)			
Consumer Prices (Seoul)	13.6	10.1	12.7
Wholesale Prices	10.0	6.8	9.1
<u>Balance of Payments</u> (in million U.S. \$)			
Merchandise Exports (f.o.b.)	175	658	882
Merchandise Imports (f.o.b.)	<u>-416</u>	<u>-1,650</u>	<u>-1,804</u>
Deficit	-241	-992	-922
Receipts from Military Expenditures	74	249	232
Other services, net	<u>-27</u>	<u>-51</u>	<u>-113</u>
Balance on Goods & Service Account	<u>-194</u>	<u>-794</u>	<u>-803</u>
<u>International Liquidity</u> (in million U.S. \$)			
Gross Foreign Exchange Reserves	146	550	584
Month's Imports of Goods & Services	4	3	3
IMF Quota	18.8	50	50
IMF Drawings (outstanding)	-	12.5	12.5
<u>Net Inflow of Foreign Capital</u> (in million U.S. \$)			
Grants	203	244	180
Loans	-3	634	608
Direct Investment	<u>-</u>	<u>16</u>	<u>65</u>
Total	<u>200</u>	<u>894</u>	<u>853</u>

External Debt

Total outstanding external debt (disbursed) with maturity of over one year at the end of 1970: \$1,907 million.

Amortization and interest payment on these debts during 1970 was \$278 million, or 20.2% of export earnings.

Exchange Rate 373 Won to the dollar. (As of December 20, 1971).

	<u>1960</u>	<u>1965</u>	<u>1970^{a/}</u>	<u>1975^{a/}</u>
<u>Social Indicators</u>				
Population Growth Rate (%)	2.88	2.70	2.04	1.60
Urban Population Growth Rate (%)				
average for preceding 5 years)	5.8	5.8	5.0	4.6
Birth Rate (per 1,000 population)	42.0	37.4	28.0	22.3
Family Planning (1,000 acceptors)	-	430	775	900
School Enrollment, Primary (%)	84	87	97	n.a.
Literacy Rate (%)	71	85	90	n.a.
Unemployment Rate (%)	8.4	7.4	5.0	n.a.
Population Per Hospital Bed	2,510	2,520	2,000	1,606

^{a/} 1970 data are preliminary estimates, 1975 data are Bank estimates.

YONG SAN GANG IRRIGATION PROJECT
LOAN, CREDIT AND PROJECT DATA

I BANK LOAN

Borrower: Agricultural Development Corporation (ADC)

Guarantor: Republic of Korea

Purpose: To provide irrigation to about 33,000 hectares to increase the production of rice, vegetables, fruit and miscellaneous crops.

Amount: \$33 million

Amortization: In 30 years including a 6-year period of grace, through semi-annual installments beginning March 15, 1978 and ending September 15, 2001.

Interest Rate: 7-1/4%

Commitment Charge: 3/4 of 1% per annum

II IDA CREDIT

Borrower: Republic of Korea

Beneficiary: Agricultural Development Corporation

Purpose: The same as for the loan.

Amount: \$15 million

Amortization: In 50 years including a 10-year period of grace, through semi-annual installments of 1/2 of 1% from March 15, 1982 through September 15, 1991 and of 1-1/2% from March 15, 1992 through September 15, 2021.

Service Charge: 3/4 of 1% per annum

Relending Terms: The proceeds of the IDA credit will be relent by the Government to ADC on the same terms as the Bank loan to ADC.

III PROJECT DATA

Description:

The project would consist of four independent sub-projects, each with its own storage dam and irrigation and drainage network. Other works would include: land consolidation and on-farm development for 30,000 hectares; relocation of existing roads in the reservoir areas and improvements of secondary and farm service roads in the project area; and a primary lime application on all lands following on-farm development. In addition, consultants would prepare a feasibility study for a second stage project in the river basin.

Cost Estimates:

	(U. S. \$ million)		
	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
Dams	4.7	8.4	13.1
Main Canals and Laterals	6.6	10.2	16.8
Main Drainage Systems	1.8	1.6	3.4
Land Consolidation and On-Farm Development	7.9	8.6	16.5
Lime Application	0.6	-	0.6
Acquisition of Right of Way	6.1	-	6.1
Operation and Maintenance During Construction	0.2	0.1	0.3
Administration and Engineering	3.0	2.4	5.4
Consulting Services and Overseas Training	<u>0.3</u>	<u>1.6</u>	<u>1.9</u>
Sub-Total	31.2	32.9	64.1
Contingencies (Technical)	3.6	4.6	8.2
Contingencies (Price)	<u>5.8</u>	<u>7.1</u>	<u>12.9</u>
Total Project Cost	40.6	44.6	85.2
Interest during Construction		<u>3.4</u>	
Financed by Bank and IDA		48.0	

Allocation of Loan and Credit:

Civil Works	\$20,600,000
Equipment, Materials and Supplies	\$10,700,000
Consultants Services and Training	\$ 1,600,000
Interest on the Loan	\$ 3,400,000
Unallocated	<u>\$11,700,000</u>
Total	\$48,000,000

Benefits:

(a) Major Agricultural Crops:

	<u>Cropped Area (ha)</u>		<u>Production ('000 tons)</u>	
	<u>Present</u>	<u>Future</u>	<u>Present</u>	<u>Future</u>
Rice	24,200	24,000	63	100
Barley	20,000	13,000	44	39
Potatoes	2,300	10,000	30	188
Miscellaneous Vegetables	2,200	6,800	23	117
Other	<u>1,800</u>	<u>6,200</u>		
Total	50,500	60,000		

(b) Annual Farm Income:

<u>Farm Size (hectare)</u>	<u>Present ('000 Won)</u>	<u>Full Development ('000 Won)</u>	<u>Increment ('000 Won)</u>
0.3	67	132	65
0.7	151	305	154
1.5	294	578	284
3.0	526	1,272	746

